Senate Republicans' Top Concerns with Senate D Budget

1. Around $500 M in Tax Increases

Clear Tax Increases -- $430 Million

- **Estate tax ($135 M)**
- **Cigarette tax up 60 cents a pack ($174 M)**
- **B&O Tax on Meat Processors ($23 M)**
- **$1 increase in liquor liter tax ($50 M)**
- **Mini-Casino Tax ($24 M)**
- **Sales Tax on Extended Warranties ($24 M)**

Other Tax Measures -- $39 M (*Bringing Total Up to $469 Million*)

- **High-Tech B&O Tax Fix ($22 M)**
- **Puyallup Cigarette Compact ($17 M)**

Other Revenue Generators -- $73 M *(Bringing Total Up to $542 Million)*

- **Move REET Collection Date Forward ($48 M – one-time)**
- **Unclaimed Property ($14 M – largely one-time)**
- **REET Controlling Interest ($6 M)**
- **Sunday Liquor Sales ($5 M)**

2. Nearly Completely Devoid of Reductions

Senate documents characterize budget problem as $1.7 Billion, even though a week ago the Governor characterized the problem as $1.5 Billion. The difference: the Senate Democrats wanted to spend $200 M more . . . hence it became part of the "problem."

How was this problem solved?

- **$557 million in tax & revenue measures**
- **$328 million in pension deferments**
- **$646 million in reserves, fund shifts & accounting changes**
- **$78 million in using tuition increases to replace general fund state support at colleges**
- ***$138 million in budget reductions – that's all . . .***

3. No Restraint: Spending Growth Four Times Higher Than in 2003-05

The Senate Democrat budget is $26 billion vs. the current $23.2 billion budget (pre-2005 supplemental). That's a $2.8 billion increase – equivalent to 12% growth. This is in stark contrast to the 2003-05 budget which grew by $700 million, a 3% increase.

4. Unsustainable – Merely Puts Off Problems

Between $800 million and nearly $1 billion of solution are one-time savings or revenue, including:

- **$328 million in pension payments deferred to future biennia**
- **$646 million in reserves, accounting changes & fund shifts, although fund shifts ($178 M) has become standard practice so its characterization as one time is questionable**
- **$62 million in legislation (REET date change & unclaimed property)**

This, coupled with the carry-forward impacts of the budget, creates a likely budget deficit exceeding $1 billion next biennium after spending all reserves. This despite raising taxes by half-a-billion dollars in this budget!!!

5. Reserve Level is Too Low

Proposed $214 million reserve is about ½ of 1% of spending. This can be wiped out by one forecast.

6. Pension Funding – Liable to Be Sued

The Senate Democrats defer $328 million in pension payments to future biennia. They do this through two steps: (a) skipping contributions to the plan 1 unfunded liabilities and (b) ignoring gain-sharing liability by telling the state actuary to not include that liability in his actuarial funding assumptions (as opposed to simply doing away with gain-sharing).

This is poor policy on three fronts:

- **One, it is not a savings as we have to pay now or pay later.**
- **Two, by paying later we end up paying a LOT MORE. The state actuary indicated that by not pre-funding future gain sharing costs and by not statutorily terminating the benefit the end cost to the state is over three times higher than if the policy was paid for now ($1.4 billion over 25 years as opposed to $430 million if funded upfront). Not pre-funding a benefit is not only bad precedent in pension funding it's also very costly.**
- **Three, it leaves us wide open to be sued. The state Supreme Court has ruled we have a contractual duty to keep our pension system actuarially sound. By skipping unfunded liability contributions, we are putting a big red "Sue Us" bulls-eye on our back.**

7. Fails to Attempt to Control Fast-Growing Budget Areas

Pensions, health care, tort liability, general-assistance unemployable, and bilingual education. These are among the fastest growing areas of the budget – yet solutions evade Senate Democrats.

Pension costs are deferred. Even the one available solution – statutorily terminating gain-sharing – is not to be found in the Senate D proposal; instead, the actuary is asked to ignore the liability.

Health care grows at double-digit inflation. No innovative policies are put forth. Instead efforts at clamping down on ineligible recipients are terminated. Modest premiums set to take effect are eliminated. And taxpayers continue to subsidize state employees' share of health benefits at 12%, well-below the private sector average of 28%.

Governmental tort liability has grown more than 500% since over the last decade, resulting in more than $150 M in costs this biennium. No proposals are put forth to stem this tide.

General Assistance Unemployable's caseload has grown nine times as fast as population in recent years. The program now costs more than the entire combined state support of WWU, EWU and Evergreen State College. Yet the Senate Democrats' sole savings is $18 million from eliminating vocational factors for eligibility for the cash grant assistance.

Bilingual education costs are growing nearly three times the rate of state revenues. The percentage of students on the program more than three years has tripled in recent years and the percent that are on more than five years has quadrupled. No proposals are set forth to address this issue.

8. Health Insurance -- Giving State Employees a Better Deal or Shortchanging K-12 Employees?

State employees' unions portrayed the result of collective bargaining on health insurance as maintaining the employees' share at 12% with the state paying 88%. The contract calls for state contributions per represented employee of $663 per month in year one and $744 per month in year two, a dollar figure arrived at based on the assumption of 11% annual health care inflation.

The Senate budget, however, feels 11% annual inflation is too high. It estimates inflation will be 8.5% annually. This assumption means one of two things:

- **If correct, the amount of taxpayer/state contribution to state employees represented by collective bargaining will be higher than needed to maintain the advertised 88%/12% split.**

- **If incorrect and inflation is greater than 8.5%, the "losers" will be K-12 staff as dollars driven out to school districts will be insufficient. This means either K-12 employees will have to pay more of the cost or taxpayers will pay more in a future supplemental budget.**

9. Collective Bargaining & Failure to Employ Competitive Bidding

Compensation increases are a significant cost in this budget, driven largely by collective bargaining. Collective bargaining was sold as part of a "three-legged stool" of compensation reform: going hand in hand with increased management flexibility which would generate greater efficiencies. Foremost among this flexibility was the newly granted ability to put out for competitive bidding services historically performed by state employees. This was a vital protection to ensure taxpayers were getting the best value for their dollar. Yet competitive bidding is absent from this budget, leading to the very real question of what taxpayers got out of this collectively bargained agreement other than a higher bill?

10. Thousands of Developmentally Disabled Hurt by Budget

The 2003-05 budget set in motion the closure of Fircrest with the proceeds from the sale of the property to be used to provide DD services to thousands more individuals. DD advocates whole-heartedly endorsed the plan. State employee unions, whose members would lose jobs, opposed the plan. The Senate D budget terminates all efforts to close Fircrest.